

Service Date: May 27, 1988

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application)	UTILITY DIVISION
Of MONTANA-DAKOTA UTILITIES, INC.)	
For Authority To Implement The)	DOCKET NO. 88.5.10
Gas Cost Tracking Procedure To)	
Establish Decreased Rates For Gas)	INTERIM ORDER NO. 5346
Service.)	
_____)	

INTERIM RATE ORDER

FINDINGS OF FACT

1. On May 6, 1988, the Montana-Dakota Utilities Company (Company, Applicant, or MDU) filed with the Montana Public Service Commission (Commission) its application to implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheet 88. The filing was given the Docket No. 88.5.10. The Company requested that rates become effective June 1, 1988, subject to Federal Energy Regulatory Commission (FERC) authorization of Williston Basin Interstate Pipeline Company's (WBIP) May 2, 1988, filing. (Application, p. 3)

2. Since the Commission established MDU's present gas cost tracking adjustment level, there have been three actions by WBIP

that have an impact on MDU's cost of gas at the border station.

This filing reflects the net effect of all three of these actions.

The specific filings made by WBIP are as follows:

1. Docket No. RP87-115-000. This filing represents a general rate increase by WBIP, and new rates were effective on an interim basis on March 1, 1988, as authorized by the FERC.
2. Docket No. TA88-3-49-000. This filing was a PGA adjustment which decreased rates by about 89 cents per dekatherm (dkt) under WBIP's normal six month amortization or about 24 cents per dkt under WBIP's preferred twelve month amortization. On April 29, 1988, the FERC authorized the six month amortization basis for WBIP. The rates were effective to MDU on May 1, 1988.
3. Docket No. TA88-1-49-000. This filing is a PGA adjustment reflecting a decrease of about 17 cents per dkt from the May 1, 1988, rate levels. The filing was made on May 2, 1988, and the rates are to be effective to MDU on June 1, 1988. The FERC has not yet authorized the rates contained in this filing. (Application, p. 2)

3. Based on the above discussion, MDU requests that the Commission allow the pass-through of this Gas Cost Tracking Adjustment change which reflects the net effect of the three WBIP filings under the terms of MDU's Rate 88. (Application, p. 2)

4. The tracking procedure provides for adjusted rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Tracking Adjustment amortized over a projected six-month sales period.

5. The total tracking adjustment on a per tariff basis is a negative \$0.890 per dkt for residential and general service customers and a negative \$1.447 per dkt for industrial customers.

The net change from present rates is a decrease of \$1.267 per dkt for residential and general service customers and a decrease of \$0.839 per dkt for industrial customers. This adjustment would amount to approximately \$3,763,000 during the proposed effective period. These proposed changes are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	(\$0.608)	(\$1.447)
Unreflected Gas Cost Adjustment	<u>(0.282)</u>	0.000
Total Tracking Adjustment	(\$0.890)	(\$1.447)
PSC Tax Effect at .3%	(\$0.893)	(\$1.451)
Less: Total Tracking Adjustment - Current (Including PSC Tax)	<u>0.374</u>	<u>(0.612)</u>
Net Increase (Decrease) in Current Rates	(\$1.267)	(\$0.839)
	=====	=====

6. MDU is proposing an alternative calculation reflecting a levelization of the effect of WBIP's June 1, 1988, rate change and a twelve month amortization of MDU's unreflected gas cost account balance. This adjustment would amount to approximately \$3,803,000 during the proposed effective period. These proposed changes are calculated in the following table:

	<u>Residential and Commercial</u>	<u>Industrial Customers</u>
Current Gas Cost Adjustment	\$0.065	(\$0.774)
Unreflected Gas Cost Adjustment	<u>(0.086)</u>	<u>0.000</u>
Total Tracking Adjustment	(\$0.021)	(\$0.774)
PSC Tax Effect at .3%	(\$0.021)	(\$0.776)
Less: Total Tracking Adjustment - Current (Including PSC Tax)	<u>0.374</u>	<u>(0.612)</u>
Net Increase (Decrease) in Current Rates	(\$0.395)	(\$0.164)
	=====	=====

7. MDU states that it is proposing the alternate calculation to minimize rate swings that will occur under normal procedure. The current gas cost change to MDU, as a result of the three rate changes discussed above, is a negative \$0.800 per dkt for residential and general service customers and a negative \$0.837 per dkt for industrial customers. It is estimated that WBIP's next surcharge change alone, which will be effective November 1, 1988, would be an increase of about \$0.870 per dkt under the six month amortization period ordered by the FERC. (Application, p. 3)

8. Concerning MDU's unreflected adjustment, a normal six month amortization would result in a change of a negative \$0.463 per dkt for residential and general service customers and no change for industrial customers. Amortization over six months would eliminate the negative unreflected adjustment by the end of

November causing an increase from this factor alone of about \$0.282 per dkt for residential and general service customers in December of 1988. When combined with the estimated change from WBIP of \$0.870 per dkt on November 1, 1988, this would result in an overall increase to MDU's residential and general service customers on December 1, 1988, of about \$1.152 per dkt and an increase to industrial customers of \$0.870 per dkt. (Application, p. 3)

9. MDU believes that an alternate method in this filing would benefit its retail customers. Under the Company's alternate proposal, this significant swing in rates would be minimized. MDU's alternate proposal assumes a current gas cost consistent with WBIP's proposed alternate method of a twelve month amortization period for its unreflected account. MDU also proposes a twelve month amortization of its unreflected account. Based on the above, the proposed change for June 1, 1988, is a decrease of \$0.395 per dkt for residential and general service customers consisting of a negative \$0.127 per dkt current gas cost adjustment change and a decrease of \$0.268 per dkt from the currently effective unreflected adjustment. The proposed June 1, 1988, change for industrial customers would be a decrease of \$0.164 per dkt consisting of only a current gas cost adjustment. (Application, p. 4)

10. MDU estimates that the changes for December 1, 1988, under its alternate proposal, would be additional decreases of approximately \$0.262 per dkt for residential and general service customers and approximately \$0.762 for industrial customers. These estimated changes consist of increases of \$0.221 and \$0.220, respectively, for current gas costs and decreases of \$0.483 and \$0.982, respectively, for the unreflected adjustment portion. (Application, p. 4)

11. MDU claims that the alternate proposal will result in rate stability and minimum rate levels for the next heating season, and, for those reasons, requests approval of the alternate proposal. (Application, p. 4)

12. At March 31, 1988, MDU had 61,072 customers in Montana whose cost of service would be affected by this adjustment. (Application, p. 4)

13. MDU also requested in this filing that the Commission grant any waivers of its rules, regulations, and orders it deems necessary to allow timely implementation of the rate changes proposed in this filing.

14. After much consideration, the Commission agrees with the twelve month amortization proposed in the alternate approach and

finds it to be proper in this Interim Order, subject to refund. The Commission, however, finds that MDU must accrue interest at the Company's approved return on equity rate on the unamortized balance left at the end of the first six month period during the second six month period of the proposed twelve month amortization period. In accepting the Company's alternate proposal, the Commission finds that the effective date for this Interim Order will be for services rendered on and after June 1, 1988, subject to FERC approval of WBIP's May 2, 1988, filing.

15. The Commission finds MDU's application to be a complete filing and defers its decision until the Final Order in this proceeding concerning MDU's request for a blanket waiver of the Commission's rules, regulations, etc.

16. In granting this interim approval, the Commission stresses that the calculations and methodologies approved in this Interim Order will be closely scrutinized and, depending on the record in this proceeding, may be modified or disallowed in the Final Order.

17. Concerning a hearing in this proceeding, the Commission will issue a Proposed Procedural Order, and, if no objections to that proposed procedural schedule are received, the Commission will approve the Proposed Procedural Order as final.

18. The criteria by which the Commission may determine an appropriate interim adjustment in a tracking procedure are found in past Commission gas tracking orders and in the Commission's rules regarding interim relief.

19. Past Commission orders have established the following criteria to be met in the MDU tracking procedure:

- (a) Tracking increases are to be based on historic costs and volumes (Finding of Fact No. 6, Order No. 4476);
- (b) Interest is not to be imputed on the deferred gas cost balance (Finding of Fact No. 25, Order No. 4476a);
- (c) The appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case; furthermore, that mix should apply to both the current and unreflected portions of a tracking procedure (Finding of Fact No. 5, Order No. 4742a); and
- (d) The Company should not annualize for new sources of gas not having an actual production history within the test year (Finding of Fact No. 6, Order No. 4742a).

20. The Commission's rules regarding interim relief are contemplated to provide relief on a "make-whole" basis and set forth the guidelines by which the Commission staff is to develop an appropriate level of interim relief. Among other things, the guidelines provide for normalization and annualization of test year booked net income and test year average rate base, utilizing the

rate of return authorized in the Commission's most recent decision regarding the subject utility.

21. A cursory examination of the Company's application and accompanying exhibits in this proceeding indicates that the criteria enumerated in Finding of Fact No. 19 have been met. Furthermore, the tracking adjustment represents nothing more than normalization and annualization of test year booked net income, and, hence, constitutes an adjustment contemplated in the Interim policy rules. Consequently, the Commission finds the Company's request for relief, as applied for under the alternate proposal in this Docket and as implemented per the Commission's above discussion concerning carrying charges on the unamortized balance after the first six month amortization period, to be proper in this Interim proceeding.

22. However, the granting of this Interim should in no way be misinterpreted to mean that any issue in the case has been decided before all the evidence has been presented and heard during the course of these proceedings.

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, is a corporation providing natural gas service within the State of Montana and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana rates and operations pursuant to MCA Section 69-3-102 and Title 69, Chapter 3, Part 3, MCA.

3. The Commission may, in its discretion, temporarily approve rate changes pending a hearing or final decision, pursuant to Title 69, Chapter 3, MCA.

4. The rate levels and spread approved herein are a reasonable means of providing Interim relief to MDU. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this Order are found to be unjustified in the Final Order in this Docket.

ORDER

1. Applicant, Montana-Dakota Utilities Company, is hereby granted interim relief in the amount of 39.5 cents per Mcf reduction for all residential and commercial customers and a decrease of

16.4 cents per Mcf for industrial customers. The Company must also comply with the carrying charge provisions discussed in Finding of Fact No. 14 in this Interim Order.

2. Such relief is to become effective for services rendered on and after June 1, 1988, subject to the FERC's authorization of WBIP's May 2, 1988, filing.

3. Applicant must file its new rates in compliance with the Findings of Fact in this Interim Order.

4. Interim revenues granted herein are subject to rebate should the Final Order in this Docket determine that a lower revenue level is warranted. Such a rebate would include interest at the rate of the Applicant's last granted return on common equity.

5. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Interim Order.

6. The Commission determines that this is a complete filing.

DONE AND DATED this 27th day of May, 1988, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Carol A. Frasier
Commission Secretary

{SEAL}

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.